TOPIC NINE
BUSINESS RISK MANAGEMENT

9.0 Definition of key Concepts

- **Risk:** An uncertain event that may affect the achievement of objectives.
- **Risk Management:** A structured process of identifying, analysing, and responding to risks.
- **Business Risk Management, also known as Enterprise Risk Management (ERM):** A comprehensive approach in which risk management is coordinated across the entire organisation rather than handled separately in departments, recognising that risks are interconnected and should be managed together rather than in isolated areas as was traditionally the case.
- **Threat:** An uncertain event that could have a negative impact on achievement of the objectives of a business.
- **Opportunity:** An uncertain event that could have a favorable impact on achievement of objectives of a business.

Example

A manufacturing firm such as Mukwano Industries Uganda Ltd imports raw materials priced in US dollars.

- **Risk (Exchange Rate Volatility):** Fluctuations in the UGX/USD exchange rate often influenced by policies from the Bank of Uganda can increase import costs when the Ugandan shilling depreciates. This creates **financial risk or threat** due to rising production expenses and reduced profit margins.
- **Opportunity:** When the Ugandan shilling weakens, Mukwano's locally produced goods become relatively cheaper in regional export markets such as Kenya and South Sudan. This enhances export competitiveness and can increase revenue.

9.1 Types of Business Risks and Drivers

Business risks can be classified by their **source** and **nature**.

1. Classification by source

I. **Systematic Risk (Market Risk/Non-Diversifiable Risk)**

This risk affects the entire market or a large segment of it and is driven by macroeconomic factors. It Cannot be controlled or diversified away by an individual firm.

- **Key Drivers***:* Inflation, interest rate changes, political instability, war, global pandemics.
- **Example***:* A sudden depreciation of the Uganda Shilling against the US Dollar increases the cost of imported raw materials for all manufacturers in Uganda (e.g., plastics, electronics).

II. **Unsystematic Risk (Specific Risk/Diversifiable Risk)**

This risk is specific to a particular business or industry. It can be managed and reduced through diversification (for investors) or effective internal controls (for managers).

- **Key Drivers***:* Labor strikes, supply chain disruptions, product recalls, loss of a key client.
- **Example***:* A fire at a single major supplier of packaging materials for Mukwano Industries could halt their production lines temporarily. Another company in a different industry (e.g., telecom) would be unaffected.

2. Classification by nature

I. **Strategic Risk**: Affect the long-term goals and strategy of the business. This includes risks from competition, changing consumer preferences, emerging technologies.

- **Example***:* The emergence of mobile money services (e.g., MTN MoMo, Airtel Money) posed a strategic risk for traditional banks such as Stanbic and Centenary Bank, which were initially slow to adapt to digital financial services. Similarly, the rise of smartphone technology became a strategic risk for Nokia.

II. **Operational Risk**: Loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This is the most common type of risk for day-to-day management.
    - **Example***:* A payroll error due to a failure in the HR system (process/system risk) at a large organisation like Uganda Revenue Authority (URA) can cause employee discontent and reputational damage.

III. **Financial Risk**: Related to the financial health and stability of the business. It includes credit risk (customers failing to pay), liquidity risk (inability to meet short-term obligations), and market risk (interest rate and currency fluctuations).
    - **Example:** A Ugandan SME that relies on a single large debtor (e.g., a government contractor) faces significant credit risk. If the government delays payment for 12 months, the SME's cash flow is crippled.

IV. **Compliance Risk**: The risk of legal or regulatory sanctions, financial loss, or reputational damage a business faces when it fails to comply with laws, regulations, or industry standards.
    - **Example***:* A telecom company in Uganda failing to comply with the Uganda Communications Commission (UCC) regulations on SIM card registration could face hefty fines or license suspension.

V. **Reputational Risk**: The risk of damage to a brand's image, goodwill, or public perception. This often results from failures in other risk areas (e.g., operational, compliance) and is amplified by social media.
    - **Example:** In 2007, Ribena was sued for misleading advertising after it was found that its products falsely claimed to contain vitamin C, causing significant reputational damage to the brand.

VI. **Environmental Risk:** Results from the harm to the environment or failure to meet sustainability expectations (e.g., climate change, pollution and deforestation).

- **Example:** In Uganda, climate-induced droughts and floods devastating agriculture and related agribusinesses.

Emerging Risks (aligned with 2025–2026 global trends)

VII. **Cyber risk** is the potential for financial loss, operational disruption, or reputational damage due to failures or breaches in IT systems, networks, or data. It includes threats such as data breaches, ransomware attacks, and AI-enabled cybercrime. As businesses increasingly digitise, cyber risk has consistently ranked among the top global business risks.

- **Ugandan Example**: In 2020, a suspected ransomware attack on the Uganda Revenue Authority (URA) disrupted Electronic Fiscal Receipting and Invoicing Solution (EFRIS) and other digital tax systems, halting customs clearance and paralysing port operations, resulting in significant financial losses for businesses.
- **Global Example**: In 2021, the Colonial Pipeline in the US was paralysed by a ransomware attack, forcing the company to pay $4.4 million to restore operations, causing fuel shortages and panic buying across the East Coast.

VIII. **Geopolitical and supply chain risk** is the potential for disruption, financial loss, or strategic disadvantage caused by political instability, conflicts, trade policies, sanctions, or fragile global supply networks. These risks have risen due to rising protectionism, regional conflicts, and vulnerabilities exposed during the COVID-19 pandemic.

- **Global Example:** The 2022 Russian invasion of Ukraine caused global supply disruptions, surging energy prices, production cuts in industries like steel and fertilizer, and exacerbated the worldwide semiconductor shortage.
- **Ugandan Example**: The 2022 closure of the Uganda–DRC border at Kasindi disrupted exports of cement, construction materials, and agricultural products, leading to delays, spoilage, and revenue losses for Ugandan traders reliant on eastern DRC markets.

9.2 The Risk Management Process

1. **Identifying the risks involved in all aspects of the business:** Identify potential risks affecting the business using brainstorming, risk assessment, data collection, and risk categories like operational, financial, strategic, compliance, and environmental.
2. **Reviewing the probability of the negative events occurring:** Assessing risks involves evaluating their likelihood and impact, using probability and impact assessments. Risk rating involves combining these assessments to prioritise risks, using tools like risk matrices to visualise and rank them.
3. **Developing Risk Management Strategies:** Develop risk mitigation strategies by planning, implementing, sharing, and accepting risks. Common approaches include avoiding, reducing, sharing, and accepting. Outline specific actions, resources, and responsibilities for implementing these strategies to manage or reduce identified risks.
4. **Implementing the Risk Management Plan:** Implement the risk management plan by executing planned actions, allocating adequate resources, and informing all stakeholders about their roles in addressing identified risks.
5. **Monitoring the situation to see if the plan is effective or if it needs to be altered:** The objective is to track the effectiveness of a risk management plan, making necessary adjustments based on continuous monitoring and review of risk indicators, measures, and mitigation strategies, and updating risk assessments and response strategies as needed.

9.3 Tools and Techniques Used in the Risk Identification and Analysis Process

- **SWOT Analysis**: Evaluates internal strengths (e.g. skilled workforce) and weaknesses (outdated technology), and external opportunities (growing market) and threats (new competitor) to identify areas for improvement and potential risks.
- **PESTLE Analysis**: Examines external factors affecting a business including Political, Economic, Social, Technological, Legal and Environmental to

anticipate threats and opportunities. E.g. Political: new tax laws; Economic: inflation; Social: changing consumer preferences; Technological: AI adoption; Legal: new regulations; Environmental: stricter emission laws.

- **Risk Register**: A central document listing identified risks, their owners, likelihood, impact and planned responses to track and manage risks systematically. Risk: supply chain disruption; Owner: operations manager; Likelihood: high; Impact: severe; Response: diversify suppliers.
- **Risk Matrix/Heat Map**: A visual tool that prioritises risks by combining their probability and potential impact, highlighting critical areas requiring attention. E.g. High probability / high impact risks shown in red, moderate risks in yellow, low risks in green.
- **Brainstorming and Workshops**: Collaborative sessions with stakeholders to generate and discuss potential risks, ensuring diverse perspectives are considered. E.g. Team workshop identifies risks in new product launch, including production delays and customer complaints.
- **Scenario Analysis and Expert Judgement**: “What if” simulations to explore potential future events, often combined with expert input using methods like the Delphi technique. E.g. Experts assess the impact of a 20% increase in raw material costs on profitability and operational plans.
- **Business Process Analysis**: Reviewing organisational processes to identify inefficiencies, vulnerabilities and risk exposure. E.g. Using diagrams to visualise the steps of the supply chain and identify points where delays or errors may occur.
- **Key Risk Indicators (KRIs):** Metrics or signals that provide early warning of increasing risk levels, helping organisations respond proactively. Examples include rising debt-to-equity ratios or overdue receivables for financial risk, frequent equipment breakdowns or supply chain delays for operational risk, the number of attempted cyberattacks for cyber risk, increasing regulatory fines for compliance risk, a surge in negative social media mentions for reputational risk, and rising carbon emissions for environmental risk.
- **Benchmarking and Industry Research:** Comparing practices, incidents and risk exposures with peers and global standards to identify emerging risks and

best practices. E.g., reviewing competitors' cybersecurity measures or industry recalls to identify vulnerabilities.

9.4 Risk Management Strategies / Risk Responses

1. **Risk Avoidance:** Avoiding activities or situations with high risk to prevent negative outcomes.
    - **Global example*:*** BP avoided drilling in high-risk areas after the Deepwater Horizon disaster in 2010.
    - **Ugandan example*:*** Some local banks avoid lending to volatile sectors like small-scale mining due to high default risks.
2. **Risk Reduction:** Implementing measures to lower the likelihood or impact of a risk.
    - **Global example*:*** Airlines use advanced maintenance and safety protocols to reduce operational risks.
    - **Ugandan example*:*** Century Bottling Company (a subsidiary of Coca-Cola Beverages Africa in Uganda) regularly inspects production lines to minimise equipment failures and production losses.
3. **Risk Transfer:** Shifting risk to another party through insurance, contracts, or outsourcing.
    - Global example: Companies insure against cyberattacks to transfer financial loss to insurers.
    - **Ugandan Example:** MTN Uganda uses third-party logistics providers for network tower construction, transferring transport and installation risks.

4. **Risk Acceptance:** Choosing to accept minor risks when mitigation costs outweigh potential impact.
    - **Global example*:*** Retailers accept minor theft losses rather than overspending on security.
    - **Ugandan example*:*** Small Ugandan Agro processors may accept occasional crop losses due to unpredictable weather instead of investing heavily in expensive irrigation systems.

5. **Exploit:** Seizing opportunities to ensure positive events occur and benefits are realised.
    - **Global example*:*** Tesla exploits rising demand for electric vehicles by accelerating production and innovation.
    - **Ugandan example*:*** Nile Breweries capitalised on growing demand for premium craft beers by introducing new product lines.
6. **Enhance:** Taking proactive steps to increase the likelihood or positive impact of opportunities.
    - **Global example:** Amazon invests in AI-driven logistics to enhance delivery efficiency.
    - **Ugandan example:** Jumia Uganda improves its mobile platform to boost online sales and customer engagement.
7. **Reject:** Deliberately choosing not to pursue an opportunity if the cost or risk outweighs the potential benefit.
    - **Global example:** Some pharmaceutical firms reject high-risk drug development projects with low success probability.
    - **Ugandan example:** A local bank declines entering the volatile cryptocurrency market due to regulatory uncertainty.
8. **Fallback / Contingency:** Preparing a backup plan to reduce the impact of risks if they occur.
    - **Global example*:*** Airlines maintain alternate flight routes and spare aircraft to respond to operational disruptions.
    - **Ugandan example*:*** Stanbic Bank implements backup power and IT systems to maintain operations during electricity outages.

9.5. Importance of Business Risk Management

1. **Minimising financial loss:** Identifying and assessing risks enables businesses to take proactive measures, reducing potential losses and supporting long-term sustainability. **Example***:* MTN Uganda invests in network security to prevent fraud and revenue losses; globally, Toyota strengthened quality controls after costly product recalls.
2. **Safeguarding Reputation:** Effective risk management helps prevent negative publicity, legal issues, and damage to brand image. **Example**: In 2007,

Ribena suffered reputational damage after being sued for misleading advertising on vitamin C content; similarly, Fido Dido Ice Cream in Uganda was closed by the Dairy Development Authority due to poor hygiene conditions, including contaminated products and unsafe practices, resulting in significant reputational harm.

3. **Ensuring compliance:** It enables organisations to meet regulatory requirements and avoid penalties or legal consequences. Example*:* Uganda Revenue Authority enforces compliance, and businesses risk penalties for non-compliance; globally, banks face heavy fines for breaching anti-money laundering regulations.
4. **Enhancing decision-making:** Provides relevant information to support informed decisions aligned with organisational objectives. Example: Ugandan banks uses risk analysis before issuing loans; globally, Amazon uses data-driven risk assessment when expanding into new markets.
5. **Seizing opportunities:** Helps identify and take advantage of opportunities for growth, innovation, and competitive advantage. Example: Nile Breweries Limited introduced new beverage lines to tap into changing consumer preferences; globally, Tesla capitalised on demand for electric vehicles.
6. **Increasing stakeholder confidence:** Demonstrates preparedness to manage risks, strengthening trust among investors, employees, and customers. Example: Stanbic Bank Uganda maintains strong risk controls to reassure investors; globally, well-governed firms attract more investment due to sound risk management practices.
7. **Ensuring business continuity:** Supports the development of contingency plans to minimise disruptions during unexpected events. Example: During the COVID-19 pandemic, many Ugandan businesses adopted digital platforms to continue operations; globally, firms implemented remote working systems to maintain productivity.

Online Video Resources

1. Risk Management | Process and Approaches | Real-Time Examples

Risk Management | Process and Approaches | Real-Time Examples

2. What is Risk Management? (With Real-World Examples)

What is Risk Management? (With Real-World Examples)

3. Risk Assessment with Examples | Risk Management

Risk Assessment with Examples | Risk Management

4. An Explanation of Risk Management for Businesses

An Explanation of Risk Management for Businesses

5. Risky Business – How Evaluating Risk Leads to Better Decisions (TEDx)

Risky Business – How Evaluating Risk Leads to Better Decisions

Case Study: Risk Management in a Changing Business Environment

In recent years, businesses in Uganda have operated in an increasingly uncertain and dynamic environment shaped by digital transformation, globalisation, and regulatory pressures. A mid-sized Agro-processing company based in Kampala, FreshGrow Ltd, sources raw materials from rural farmers and exports processed products to regional markets such as Kenya and Rwanda.

The company has experienced steady growth but has recently encountered several challenges. Fluctuations in the Ugandan shilling have increased the cost of imported packaging materials, affecting profitability. At the same time, unpredictable weather patterns linked to climate change have disrupted the supply of raw materials from farmers, leading to production delays.

In addition, FreshGrow Ltd relies heavily on digital systems for inventory management and mobile payments. A recent attempted cyberattack raised concerns about data security and potential operational disruption. Management is also under pressure to comply with tax requirements enforced by the Uganda Revenue Authority, including the use of the Electronic Fiscal Receipting and Invoicing Solution (EFRIS). Reputational concerns have also emerged. A competitor was recently

exposed on social media for poor hygiene standards, leading to a sharp decline in customer trust. FreshGrow Ltd fears that a similar incident could damage its brand, particularly in an era where information spreads rapidly online.

To address these issues, the management team is considering adopting a more integrated approach to risk management. Previously, risks were handled separately across departments, but there is now growing recognition of the need for a coordinated, organisation-wide approach. The company is exploring the use of tools such as risk registers, risk matrices, and scenario analysis to better understand and prioritise risks.

At the same time, management recognises that not all risks are negative. The depreciation of the Ugandan shilling, while increasing import costs, has made the company's exports more affordable in regional markets, creating an opportunity for growth. The challenge lies in balancing risk mitigation with opportunity exploitation. FreshGrow Ltd must now decide how best to manage its diverse risks while remaining competitive in both local and regional markets.

Discussion Questions

1. Identify and classify the key risks faced by FreshGrow Ltd (e.g., financial, operational, strategic, compliance, reputational, cyber, environmental).
2. Which of these risks are internal and which are external? How do they interact?
3. What risk management strategies (avoidance, reduction, transfer, acceptance, exploit, enhance) would you recommend for each major risk identified? Justify your answers.
4. What does the company stand to gain from prioritising business risk management?